
Iowa Legislative Services Agency Fiscal Services

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Workers' Compensation for State Employees Fund

ISSUE

The *Issue Review* provides an overview of the State Employee Workers' Compensation Fund.

AFFECTED AGENCIES

All State Agencies

CODE AUTHORITY

Chapter 8A, Code of Iowa

BACKGROUND

The Workers' Compensation Program administered by the Department of Administrative Services (DAS) is intended to assure that State employees who have sustained work-related injuries and illness receive prompt medical care and lost time benefits in exchange for limitations on legal actions.

The DAS has established a rating formula and assesses premiums to all State agencies, departments, and divisions, including those that do not receive an appropriation for the payment of Workers' Compensation and operate with moneys other than from the General Fund. The State Treasurer maintains the State Employee Workers' Compensation Fund under the control of the DAS for the payment of claims and administrative costs.

The DAS entered a contract on June 30, 2001, with Sedgwick CMS, to handle the processing and payment of claims and services for State employees.

CURRENT SITUATION

It is the State's policy not to purchase commercial insurance for all risks of losses to which it is exposed. Instead, the State sets aside assets for claim settlement in internal service funds or pays the claims from the General Fund.

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ATTACHMENT 1 shows the Fund's revenue and expenses, the unfunded liability, and the number of claims for recent fiscal years.

While the average estimated cost per pending claim has increased from \$33,000 in FY 2003 to an estimated \$40,000 for FY 2006, the number of pending claims has decreased from 1,600 to 1,200 during that time, leading to a decrease in unfunded liability from \$52.9 million to an estimated \$46.9 million.

BUDGET IMPACT

According to the latest Iowa Comprehensive Annual Financial Report (CAFR), the Fund's liability was \$53.2 million at the conclusion of FY 2003.

The DAS determines the total premiums that need to be charged to make the required payments each year. The Department allocates the premium to be collected from each agency based upon the risk represented by the type of work conducted by the agency. Unless premiums are increased or a direct General Fund appropriation is made, the Fund's unfunded liability will remain relatively unchanged.

ALTERNATIVES

Three alternatives the Legislature may want to consider when addressing the Fund's unfunded liability:

1. Increase the premiums billed to agencies.
2. Make a direct General Fund appropriation.
3. Continue to administer and pay claims when funds are available.

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State Employee Workers' Compensation Fund FY 2000 - FY 2006

	Actual FY 2000	Actual FY 2001	Actual FY 2002	Actual FY 2003	Actual FY 2004	Estimated FY 2005	Department Request FY 2006
Resources							
Balance Brought Forward	\$ 5,802,598	\$ 3,137,465	\$ 4,316,271	\$ 110,045	\$ 347,929	\$ 22,870	\$ 309,550
Appropriation	4,084,740	0	0	0	0	0	0
Premiums	4,478,092	12,180,000	12,860,000	17,210,964	19,391,577	18,903,068	19,400,000
Refunds and Recoveries	149,849	148,151	169,330	564,883	214,233	300,000	300,000
Total Resources	\$ 14,515,279	\$ 15,465,615	\$ 17,345,601	\$ 17,885,892	\$ 19,953,739	\$ 19,225,938	\$ 20,009,550
[1] FTE Positions	7.5	7.5	4.0	3.0	3.0	3.0	3.0
Expenses							
Outside Services	\$ 487,330	\$ 327,054	\$ 1,986,945	\$ 1,801,963	\$ 1,856,805	\$ 1,912,000	\$ 1,912,000
Other Expenses	36,066	59,990	62,701	40,529	394,064	588,000	588,000
Claims Paid	10,854,418	10,762,300	15,185,910	15,695,470	17,680,000	16,416,388	17,200,000
Total Expenses	\$ 11,377,814	\$ 11,149,344	\$ 17,235,555	\$ 17,537,963	\$ 19,930,869	\$ 18,916,388	\$ 19,700,000
Ending Fund Balance	\$ 3,137,465	\$ 4,316,271	\$ 110,045	\$ 347,929	\$ 22,870	\$ 309,550	\$ 309,550
Liabilities							
[2] Estimated Fund Liabilities	\$ 32,496,945	\$ 32,496,945	\$ 32,067,663	\$ 53,230,199	\$ 50,614,760	\$ 48,898,372	\$ 47,198,372
Est. Unfunded Liabilities	<u>\$ 29,359,480</u>	<u>\$ 28,180,674</u>	<u>\$ 31,957,618</u>	<u>\$ 52,882,270</u>	<u>\$ 50,591,890</u>	<u>\$ 48,588,822</u>	<u>\$ 46,888,822</u>
Number of Claims							
[3] Pending Claims	Unknown	Unknown	5,268	1,723	1,610	1,339	1,200
[4] New Claims	4,642	4,859	4,747	4,627	4,377	4,377	4,377
[5] Claims Resolved	Unknown	Unknown	8,292	4,740	4,648	4,516	4,406
End of Year Pending Claims	<u>Unknown</u>	<u>5,268 *</u>	<u>1,723</u>	<u>1,610</u>	<u>1,339</u>	<u>1,200</u>	<u>1,171</u>
Average Estimated Cost of Pending Claims			\$ 18,612	\$ 33,062	\$ 37,800	\$ 40,736	\$ 40,298

* Number of open files transferred to Sedgwick CMS, July 1, 2001

- [1]** FY 2000 and FY 2001 include 1.0 FTE for a contract nurse and 0.5 FTE for a clerical contract position. Funding for FTE positions from the State Employee Workers' Compensation Fund began partially in FY 2004 and 100.0% beginning in FY 2005. The Ready to Work Program Coordinator position is not included in the FTE count above.
- [2]** Unpaid claim balance as of July 1 of each year. The estimated increases in FY 2003 are due to changes in actuarial assumptions.
- [3]** Data not recorded. The FY 2002 beginning number equals the number of files transferred to Sedgwick CMS in July 2001. Projections are the result of numbers [4] and [5] as explained below.
- [4]** Beginning in FY 2002, data is from Sedgwick end of the month reports. This is the number of files opened and will not match the number reported on other reports, which equals the number of files receiving one or more payments within a 12-month period. Projections are based on a 0.0% increase-decrease.
- [5]** Projections utilize a 21.0% closure rate.